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SUBJECT: NIGERIA: DONORS DISCUSS 2002 BUDGET, PRSP AND MEDIUM TERM PRIORITIES IN BRUSSELS

¶1. Summary. A donors meeting in Brussels November 19-20 focused on Nigeria's macroeconomic situation, the 2002 budget and the Poverty Reduction Strategy (PRS) process. Although GON economic progress for most of the year has been languid, donors agreed that the GON showed fourth quarter improvement with lower spending, slower monetary growth and a more liberal foreign exchange market. Given flagging global oil prices, donors questioned the assumption of \$18 per barrel of crude oil as the basis for 2002 budget revenue projections. The GON's large public wage bill (recurrent expenditures represent 65 percent of the total 2002 draft budget expenditures) was also received as an issue of concern. Donors were disappointed that the draft IPRSP did not contain a clear roadmap for how the GON expects to achieve the full PRSP. End Summary.

¶2. Core donors met in Brussels November 19-20 to discuss Nigeria's 2002 Budget, the Interim Poverty Reduction Strategy Paper (IPRSP) and medium-term development priorities. The first day was devoted to donors only sessions. The GON delegation, led by Principal Secretary to the President Stephen Oronsaye, attended the November 20 meeting. In addition to USAID Country Director, USAID Economist and Embassy EconOff, representatives from the IMF, World Bank, DFID and officials from the European Union, the Netherlands, Germany, Belgium, Sweden, France, Denmark and Canada attended. Other GON attendees included Director-General of the Debt Management Office, Akin Arikawe and Secretary of the Economic Policy Coordinating Committee (EPCC), Festus Osunsade.

Macroeconomic Performance

¶3. The IMF Representative Arvind Subramanian opened the conference with a short presentation on Nigeria's macroeconomic situation. He commented that 2001 macroeconomic performance was poor. GON performance was checkered by an overly expansionary fiscal policy, inflation at roughly 19 percent and a spread of 20 percent between the parallel and official exchange rates. Moreover, GON failure to save a significant part of the USD 8 billion in 2000-2001 excess oil proceeds for a rainy day had stymied the IMF's priority objective for Nigeria, the avoidance of boom-bust cycles. Subramanian said the IMF Board would meet the week of November 26 to discuss Nigeria's fourth quarter performance and next steps.

¶4. Subramanian claimed that fourth quarter performance had improved. The GON, he said, had restricted spending from roughly N30 billion per month to N20 billion per month. Monetary growth slowed from 50 percent in September to 28 percent by December. The exchange rate market had liberalized somewhat now that the CBN was allowing the purchase of foreign exchange at more than a 0.5 percent difference from the official rate.

2002 Budget Proposal

¶5. On the 2002 budget, the IMF believed the proposal was more transparent and realistic than the 2001 budget. The capital budget was significantly smaller than 2001 with all projects subject to due process review. However, overall spending showed virtually no decline from 2001. Many donors were concerned that the GON assumption of USD 18 per barrel for oil exports would not be realized in 2002 and would, therefore, result in higher deficit spending since actual revenue would not match the estimated earnings.

¶6. Responding to a donor inquiry, Presidential Principal Secretary Oronsaye stated that the President would not

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revisit the oil price assumption, but would work with the

National Assembly to trim from the budget an additional N50 billion (USD 446 million). (Comment. The President will face an uphill battle negotiating a further budget reduction since many national legislators already deem the budget too austere. End Comment.) However, Oronsaye pledged, should world oil prices plummet, the GON would not succumb to deficit spending; the GON would only release allocations based on actual revenues.

Interim Poverty Reduction Strategy Paper

¶7. There was general dissatisfaction with GON progress on the IPRSP submitted to the donors November 16. The World Bank representative pointed out the IPRSP should not be an abbreviated PRSP, but rather a roadmap describing the process the GON will follow to develop the full PRSP. The roadmap should describe the information and analysis needed to determine the sources of poverty, identify available GON resources and prioritize anti-poverty programs. However, the GON's draft IPRSP lacks this strategic roadmap. Many donors felt the draft IPRSP did not reflect inputs from a broad range of Nigerian stakeholders nor did it show the requisite understanding of poverty and its causes. Donors expressed concern that the PRSP should be a document -- planned, authored and fully embraced by Nigerians -- and not an artificial paper exercise driven by donor community demands.

¶8. Attempting to defend the IPRSP, the GON delegation replied that the EPCC had received input from state governments and by end-December would hold a stakeholders meeting with civil society on the PRSP. Oronsaye promised the process would be open-ended and non-exclusive. He also recognized that the PRSP must rely solely on Nigerian resources, although a large resource gap would exist, hopefully to be partly filled by donor support. The World Bank representatives said that the Bank would provide the GON with examples of successful IPRSPs.

Medium Term Objectives/Challenges

¶9. The donors identified the following medium-term development priorities for Nigeria:

- civil service reform; the public wage bill is too large, preventing allocation of resources to poverty alleviation;
- development of Nigeria's non-oil sector; use of oil revenues to promote private sector investment in the non-oil economy; privatization will be key to recovering efficiency;
- development of agriculture to accelerate poverty reduction;
- cessation of GON involvement in steel production; Ajeokuta revitalization should stop; and
- capacity-building within the Office of the Chief Economic Advisor, particularly the Federal Office of Statistics, in order to facilitate the PRSP process.

¶10. The GON delegation agreed with most of these goals, although Oronsaye asserted that the President would not tackle civil service reform before the 2003 Presidential elections. The delegation raised the issue of debt relief. Akin Arikawe felt strongly that the GON's debt obligations were unsustainable, particularly now that Nigeria is outside a formal IMF program.

¶11. Comment. The Brussels meeting provided donors a valuable opportunity to discuss the status of Nigeria's progress vis--vis the IMF and the Poverty Reduction Strategy. The IMF's characterization of Nigeria's fourth quarter macroeconomic performance bodes well for the next IMF team's visit to Abuja in January. However, Embassy believes that the IMF's optimism about further reduction of proposed capital expenditures is misplaced. The GON pledge that the President would not bend to deficit spending pressure should oil prices fall was reassuring; however, the GON will be hard-pressed to honor that pledge if oil prices remain low, especially when the election season begins in earnest and political considerations take precedence over economic imperatives. End Comment.

Jeter